

BERRIEN COUNTY PUBLIC TRANSPORTATION

MDOT - SMALL BUS PROGRAM

FINANCIAL STATEMENTS

September 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name BERRIEN COUNTY PUBLIC TRANSPORTATION MDOT-SMALL BUS PROGRAM | County BERRIEN |
| Audit Date 9/30/05 | Opinion Date 12/5/05 | Date Accountant Report Submitted to State: December 23, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting System for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEC 27 2005

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--|---------------------------|-------------------------|
| Certified Public Accountant (Firm Name) GERBEL & COMPANY P.C., CPA'S | | | |
| Street Address 830 PLEASANT ST. PO BOX 44 | | City ST. JOSEPH | State MI |
| Accountant Signature <i>Robert E. Gerbel CPA</i> | | ZIP 49085 | Date 12-23-05 |

BERRIEN COUNTY PUBLIC TRANSPORTATION

MDOT - SMALL BUS PROGRAM

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BERRIEN COUNTY PUBLIC TRANSPORTATION
Management Discussion & Analysis

Description of Basic Financial Statements

Berrien County Public Transportation (the "BCPT") is a public transportation system located in Berrien County, Michigan. The County uses the accrual basis of accounting. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be a discussion and analysis of the financial results for the fiscal year ending September 30, 2005. BCPT's basic financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and statement of cash flows. The basic financial statements also include notes that explain the information recorded in the basic financial statements.

Financial Highlights

BCPT's total expenses were \$1,098,715, while total revenues and adjustments were \$1,091,341 (\$504,175 operating revenue; \$564,818 non-operating revenue; \$22,348 adjustments). BCPT's total revenues and adjustments were not sufficient to cover expenses for the year. The difference of \$7,374 was made up from BCPT's fund balance from prior years.

BCPT's total net assets at September 30, 2005 were \$534,466 of which \$30,425 was invested in fixed assets (transportation equipment, land improvements and office equipment).

BCPT received \$476,088 in state operating assistance. This was more than the 38.437% of eligible expenses by \$58,507. This has been recorded as a current year payable. The Authority received \$96,538 in Section 5311 federal operating assistance. This was below the below the 12.40% of eligible expenses by \$37,567. This has been recorded as a current year receivable.

Condensed Financial Information

The following condensed financial information provides an overview of BCPT's financial position for the fiscal year ending September 30, 2005 and 2004.

| | <u>September 30, 2005</u> | <u>September 30, 2004</u> |
|--|---------------------------|---------------------------|
| Assets: | | |
| Fixed assets | \$ 30,425 | \$ 38,089 |
| Other assets | <u>629,845</u> | <u>601,269</u> |
| Total assets | <u>\$660,270</u> | <u>\$639,358</u> |
| Liabilities: | | |
| Current liabilities | <u>\$125,804</u> | <u>\$ 97,518</u> |
| Total liabilities | <u>\$125,804</u> | <u>\$ 97,518</u> |
| Net Assets: | | |
| Invested in fixed assets, net of related debt | \$ 30,425 | \$ 38,089 |
| Unrestricted net assets | <u>504,041</u> | <u>503,751</u> |
| Total net assets | <u>\$534,466</u> | <u>\$541,840</u> |
| Total liabilities & net assets | <u>\$660,270</u> | <u>\$639,358</u> |

- (a) *Net Assets* - Net assets, the difference between assets and liabilities.
- (b) *Fixed Assets* - Fixed assets are made up of property, buildings, equipment and buses.
- (c) *Other Assets* - Other assets consist of cash, investments, receivables and prepaid expenses.
- (d) *Liabilities* - Liabilities consist of accounts payable or bills that the Authority owes payment on. Also included are payments due to the State of Michigan for overpayments of state operating assistance.

Changes in Net Assets

The 2005 fiscal year represents BCPT's twenty-second year in running the County transit program. The table below summarizes BCPT's operations for the current and prior fiscal years.

| | <u>September 30, 2005</u> | <u>September 30, 2004</u> |
|---|---------------------------|---------------------------|
| Revenues: | | |
| Operating revenue: | | |
| Fares | \$504,175 | \$517,382 |
| Total operating revenues | <u>\$504,175</u> | <u>\$517,382</u> |
| Nonoperating revenues: | | |
| State grants | \$417,581 | \$465,206 |
| Federal grants | 134,105 | 122,842 |
| Prior year 5311 Federal grant | 6,616 | 10,387 |
| Interest earned | 5,790 | 1,584 |
| RTAP Training Expenses | 726 | 3,880 |
| Total nonoperating revenues | <u>\$564,818</u> | <u>\$603,899</u> |
| Total Revenues | <u>\$1,068,993</u> | <u>\$1,121,281</u> |
| Expenses: | | |
| Purchased transportation | \$925,134 | \$1,037,345 |
| Administration | 44,965 | 43,257 |
| Travel | 858 | 1,285 |
| Training | 935 | 1,274 |
| Lot repairs and maintenance | 8,000 | - |
| Building repairs and maintenance | 4,400 | - |
| Insurance | 95,831 | 74,242 |
| Other | 10,928 | 49,314 |
| Depreciation | 7,664 | 7,761 |
| Total Expenses | <u>\$1,098,715</u> | <u>\$1,214,478</u> |
| Net loss before adjustments | \$ (29,722) | \$ (93,197) |
| Total Adjustments | <u>22,348</u> | <u>51,190</u> |
| Net Loss for the year | \$ (7,374) | \$ (42,007) |
| Net assets - Beginning of the year | <u>541,840</u> | <u>583,847</u> |
| Total net assets - End of the year | <u>\$ 534,466</u> | <u>\$ 541,840</u> |

Summary of Operations

1. Budget:

Expenditures

| | MDOT <u>Eligible Operating</u> | <u>Audit</u> | Difference <u>Audit vs. Budget</u> |
|-----------|-----------------------------------|--------------|---------------------------------------|
| 2004-2005 | \$ 1,238,600 | \$ 1,098,715 | \$ 139,885 |

Revenues

| | MDOT <u>Approved</u> | <u>Audit</u> | Difference <u>Audit vs. Budget</u> |
|-----------|-------------------------|--------------|---------------------------------------|
| 2004-2005 | \$ 1,238,600 | \$ 1,091,341 | (\$ 147,259) |

BCPT did not amend the MDOT approved operating budget during the year.

2. General Report on FY 2005 Operations:

Operation of the BCPT system remained unchanged throughout FY 2005. The Berrien County Board of Commissioners set program policy and direction, approve all expenditures and monitor activities. The Board contracted with Transportation Management, Inc. (TMI) to provide day-to-day operational services. The Board uses a part-time employee to provide oversight services. The County Treasurer provides financial services.

Funding composition for the transit service consists of State, Federal and local dollars. While Federal funding has remained fairly consistent and even increased from 10.95% to 12.4% for FY 2005, the State formula operating assistance from MDOT dropped approximately 4%. It is anticipated that State funding will continue to decrease or stay near its present level until Michigan's overall economy shows a substantial improvement. State and Federal revenue is targeted at 54% for FY 2006. The increase is attributed to anticipated increases in Federal operating as part of the newly adopted Federal transportation package (SAFETEA-LU).

Total ridership was down by 17,750 passengers. This downward trend in ridership is reflective of the poor economic conditions in southwestern Michigan. Since much of the service is provided to human service agencies, the reductions they have received in State and Federal revenues limits them on the amount of transportation services they can contract for. This along with a concerted effort to reduce vehicle hours is having a significant impact on raising the local share.

Total operating expenses and revenues were both down. Lower expenses were achieved primarily by reducing the amount of purchased transportation services from TMI. The revenue decrease was the result of the decrease in state operating assistance and the reduction in number of passengers carried. The total number of days operated decreased from 328 to 315. Vehicle hours operated decreased by 3,522 hours and vehicle miles decreased by 88,509 miles.

Although the BCPT system is currently in a financially solid position, this could change rapidly if required adjustments are not made in a timely manner. Rapidly escalating insurance costs, decreases in State operating assistance, fare structure and decreasing ridership are all issues the County will have to closely monitor throughout FY 2006 to see if financial goals are being met.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

December 5, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners of Berrien County
Berrien County Public Transportation
MDOT - Small Bus Program
St. Joseph, Michigan

Dear Commissioners:

We have audited the financial statements of the Berrien County Public Transportation, MDOT - Small Bus Program, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of Berrien County Public Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Berrien County Public Transportation as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion of it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berrien County Public Transportation's financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements with the exception of the schedule of mileage on page 11. The supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The schedule on page 11 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Gerbel & Company, P.C.

Right. On time.

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**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Statement of Net Assets
September 30, 2005**

Assets

Current Assets

| | |
|----------------------------------|--------------|
| Cash - NOTE 2 | \$ 333,449 |
| Certificates of deposit - NOTE 2 | 196,251 |
| Accounts receivable | 50,615 |
| Due from Federal government | 44,183 |
| Prepaid expenses | <u>5,347</u> |

| | |
|----------------------|-------------------|
| Total Current Assets | <u>\$ 629,845</u> |
|----------------------|-------------------|

Property, Plant, and Equipment - NOTE 4

| | |
|--------------------------|--------------|
| Transportation equipment | \$ 52,290 |
| Land improvements | 43,700 |
| Office equipment | <u>4,660</u> |

| | |
|--------------------------------|-------------------|
| Less: Accumulated depreciation | <u>\$ 100,650</u> |
| | (70,225) |

| | |
|--------------------------------------|------------------|
| Total Property, Plant, and Equipment | <u>\$ 30,425</u> |
|--------------------------------------|------------------|

| | |
|--------------|-------------------|
| TOTAL ASSETS | <u>\$ 660,270</u> |
|--------------|-------------------|

Liabilities and Net Assets

Current Liabilities

| | |
|--------------------------|---------------|
| Accounts payable | \$ 87,860 |
| Due to State of Michigan | <u>37,944</u> |

| | |
|---------------------------|-------------------|
| Total Current Liabilities | <u>\$ 125,804</u> |
|---------------------------|-------------------|

Net Assets

| | |
|---|----------------|
| Invested in capital assets, net of related debt | \$ 30,425 |
| Unrestricted net assets | <u>504,041</u> |

| | |
|------------------|-------------------|
| Total Net Assets | <u>\$ 534,466</u> |
|------------------|-------------------|

| | |
|----------------------------------|-------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 660,270</u> |
|----------------------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended September 30, 2005**

| | |
|---|---------------------|
| Operating Revenues - Fares | \$ 504,175 |
| Operating Expenses | <u>1,098,715</u> |
| Net Operating Loss | <u>\$ (594,540)</u> |
| Nonoperating Revenues | |
| Local: | |
| Interest earned | <u>\$ 5,790</u> |
| State: | |
| State of Michigan Grants | |
| Formula Operating Assistance - current year | \$ 417,581 |
| Prior year(s) Formula Operating Assistance | - |
| State of Michigan Grants | |
| U.S. DOT Operating Grant - Section 5311- current year | 134,105 |
| Prior year(s) U. S. DOT Operating Grants | 6,616 |
| State of Michigan Grants | |
| RTAP Training Expenses | <u>726</u> |
| Total State Revenue | <u>\$ 559,028</u> |
| Total Nonoperating Revenues | <u>\$ 564,818</u> |
| Net loss from operations | \$ (29,722) |
| Add (deduct): | |
| Rent | 18,000 |
| Miscellaneous reimbursements | <u>4,348</u> |
| Net income for the year | \$ (7,374) |
| Net Assets - Beginning of the Year | <u>541,840</u> |
| NET ASSETS - END OF THE YEAR | <u>\$ 534,466</u> |

The accompanying notes are an integral part of these financial statements.

BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Statement of Cash Flows
For the Year Ended September 30, 2005

Cash Flows from Operating Activities:

| | |
|---|-----------------|
| Receipts from customers | \$ 530,072 |
| Payments to suppliers of goods and services | (1,052,311) |
| Payments to contracted employees | <u>(44,965)</u> |

| | |
|---------------------------------------|---------------------|
| Net cash used by operating activities | <u>\$ (567,204)</u> |
|---------------------------------------|---------------------|

Cash Flows from Noncapital Financing Activities:

| | |
|--|--------------|
| State and Federal operating assistance | \$ 600,162 |
| Rental income | 18,000 |
| Reimbursements | <u>4,348</u> |

| | |
|--|-------------------|
| Net cash provided by noncapital financing activities | <u>\$ 622,510</u> |
|--|-------------------|

Cash Flows from Investing Activities:

| | |
|----------|-----------------|
| Interest | <u>\$ 5,790</u> |
|----------|-----------------|

| | |
|---|-----------------|
| Net cash provided by investing activities | <u>\$ 5,790</u> |
|---|-----------------|

| | |
|---|-----------|
| Net change in cash and cash equivalents | \$ 61,096 |
|---|-----------|

| | |
|--|----------------|
| Cash and cash equivalents at beginning of year | <u>468,604</u> |
|--|----------------|

| | |
|--|-------------------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 529,700</u> |
|--|-------------------|

Reconciliation of operating income to net cash used by operating activities:

| | |
|-------------------------|--------------|
| Operating income (loss) | \$ (594,540) |
|-------------------------|--------------|

Adjustments to reconcile operating income to net cash provided by operating activities:

| | |
|--------------|-------|
| Depreciation | 7,664 |
|--------------|-------|

(Increase) decrease in:

| | |
|---------------------|--------|
| Accounts receivable | 25,897 |
|---------------------|--------|

| | |
|------------------|-------|
| Prepaid expenses | 3,433 |
|------------------|-------|

Increase (decrease) in:

| | |
|------------------|----------------|
| Accounts payable | <u>(9,658)</u> |
|------------------|----------------|

| | |
|--------------------------------|---------------------|
| Net Cash Flows from Operations | <u>\$ (567,204)</u> |
|--------------------------------|---------------------|

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Notes to Financial Statements
September 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Berrien County Public Transportation system is a department of the County of Berrien, Michigan. Berrien County is governed by a Board of Commissioners who contracted with the Michigan Department of Transportation to provide public transportation services in nonurbanized areas. The Board of Commissioners subcontract the operation of the transportation system to a third party and the financial statements include only the operations of that department of the County.

Basis of Presentation

The financial statements of the Berrien County Public Transportation system have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States. The Department's reporting entity applies all relevant GASB pronouncements and applicable Financial Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

In accordance with GAAP, the Berrien County Public Transportation system operations are accounted for as a Business Type Activity. In this regard, the Berrien County Public Transportation system follows the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when they are earned and become measurable, and expenses are recorded when they are incurred, irrespective of when paid.

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principle operating revenues are fares to passengers. Principle operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Accounting Pronouncements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* (GASB). This statement established financial reporting standards for state and local governments including special purpose government such as the Berrien County Public Transportation System. The GASB has followed up on such issues with other related pronouncements designed to clarify the intent of GASB 34.

GASB 34 and its related pronouncements and interpretation require, among other things, that the difference between assets and liabilities be reported as net assets, not equity; that a Management's Discussion and Analysis (MD&A) section precede the financial statements; and that capital assets be capitalized and depreciated over their estimated useful lives.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Notes to Financial Statements
September 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fixed Assets and Depreciation

Capital assets are defined as major assets with an estimated useful life in excess of three years.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

| | |
|--------------------------|------------|
| Land improvements | 10 years |
| Office equipment | 3-10 years |
| Transportation equipment | 5 years |

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the department considers all short-term investments with an original maturity of three months or less to be cash equivalents. The carrying amounts approximate fair value.

Operating Assistance Underpayments Receivable

Overpayment for the year ended September 30, 2005 was computed as follows:

| | |
|--|------------------|
| Operating Expenses | \$ 1,098,715 |
| Less: | |
| Depreciation (except depreciation on locally funded assets of \$502) | (7,162) |
| Ineligible expense - 6.9% of MPTA dues | (91) |
| Other reimbursements | (4,348) |
| RTAP reimbursements | (726) |
| | <u>1,086,388</u> |
| Eligible operating expenses subject to 38.437574823% limitation | \$ 1,086,388 |
| 38.437574823% of eligible operating expenses | \$ 417,581 |
| State revenues - monthly operating assistance received | <u>476,088</u> |
| | <u>58,507</u> |
| Difference - state revenue over 38.437574823% | \$ 58,507 |

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Notes to Financial Statements
September 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Section 5311 Operating Assistance Receivable (Formerly Section 18)

Underpayment for the year ended September 30, 2005 was computed as follows:

| | |
|--|-------------------|
| Operating Expenses | \$ 1,098,715 |
| Less: | |
| Depreciation (except depreciation on locally funded assets of \$502) | (7,162) |
| Audit expense | (4,900) |
| Ineligible expense - 6.9% of MPTA dues | (91) |
| Other reimbursements | (4,348) |
| RTAP reimbursements | (726) |
| | <u> </u> |
| Net expenses | \$ 1,081,488 |
| 12.40% of eligible net expenses | \$ 134,105 |
| Less progress payments | <u>96,538</u> |
| | <u> </u> |
| Difference - 12.40% exceeds Federal revenues | \$ 37,567 |

NOTE 2 - CASH AND INVESTMENTS

Cash and Short-Term Investments - Investment policies for cash and short-term investments as set forth by the Michigan Compiled Laws section 129.91 authorizes the County to invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association, United States government, or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local government units in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund.

Long-Term Investments - The department's investment policy does not address investments other than the short-term investments listed above.

As of September 30, 2005, the department had the following investments and maturities:

| | <u>Fair Market Value</u> | <u>Less Than One Year</u> | <u>One to Three Years</u> | <u>More Than Three Years</u> |
|-------------------------|------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Certificates of Deposit | \$ 196,251 | \$ 196,251 | \$ - | \$ - |
| Money Market | - | - | - | - |
| Corporate Stocks | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Investments | \$ 196,251 | \$ 196,251 | \$ - | \$ - |

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Notes to Financial Statements
September 30, 2005**

NOTE 2 - CASH AND INVESTMENTS - Continued

Credit Risk - Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions that do not have a branch location in Michigan. The department's funds were deposited in two financial institutions that meet these requirements. As of September 30, 2005, the carrying amount of the department's deposits was \$529,700 and the respective bank balance totaled \$508,894. Of the total bank balance, the Federal Deposit Insurance Corporation (FDIC) covered \$100,000.

Custodial Credit - All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the Berrien County Treasurer are done on a cash basis. Securities may be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts as determined by the Treasurer.

Concentration of Credit Risk - Financial instruments that potentially subject Berrien County Public Transportation to concentrations of credit risks consist principally of temporary cash investments that may at times exceed the amount insured by the Federal Deposit Insurance Corporation.

NOTE 3 - FUNDING

The total cost of operations for the year amounted to \$1,098,715 which was below the estimated proposed budget of \$1,238,600 by \$139,885. The funding allocations have been made based on the budgeted operating expenses and have been made according to the specifications in the contracts in force during the year. The section 5311 funding was set at 12.4% of the eligible expenses and the County billing at \$34.58 per hour for each hour of bus service.

NOTE 4 - CHANGES IN FIXED ASSETS

The following schedule represents the changes in fixed assets of Berrien County Public Transportation for the year ended September 30, 2005:

| | Ending Balance as of <u>September 30, 2004</u> | <u>Additions</u> | <u>Deletions</u> | Ending Balance as of <u>September 30, 2005</u> |
|--------------------------|---|-------------------------|-------------------------|---|
| Land improvements | \$ 43,700 | \$ - | \$ - | \$ 43,700 |
| Office equipment | 4,660 | - | - | 4,660 |
| Transportation equipment | 52,290 | - | - | 52,290 |
| Subtotal | \$ 100,650 | \$ - | \$ - | \$ 100,650 |
| Accumulated depreciation | (62,561) | (7,664) | - | (70,225) |
| Net fixed assets | \$ 38,089 | \$ (7,664) | \$ - | \$ 30,425 |

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Notes to Financial Statements
September 30, 2005**

NOTE 5 - RISK MANAGEMENT

Berrien County Public Transportation participates in a risk pool. Berrien County Public Transportation is responsible for the first \$5,000 per claim and the risk pool will cover up to \$4,000,000 per claim. In the fiscal period ending November 30, 2002, 2003, and 2004, the pool incurred over \$4.8 million, \$3.9 million and \$589,600 respectively in losses due to lawsuits. As a result of these losses, each member is required to pay a share of the total liability over the next two years to help replenish depleted reserves. Berrien County Public Transportation is required to make the following estimated payments:

| <u>Fiscal Year</u> | <u>FY2002</u> | <u>FY2003</u> | <u>FY2004</u> | <u>Total</u> |
|--------------------|------------------|------------------|------------------|-------------------|
| September 30, 2006 | \$ 18,642 | \$ 16,005 | \$ 34,274 | \$ 68,921 |
| September 30, 2007 | <u>18,642</u> | <u>16,005</u> | <u>-</u> | <u>34,647</u> |
| | <u>\$ 37,284</u> | <u>\$ 32,010</u> | <u>\$ 34,274</u> | <u>\$ 103,568</u> |

These amounts are only estimates. The actual outcomes of lawsuits still in process may cause these liabilities to be adjusted accordingly.

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Schedule of Operating Expenses**

| | | | | Year Ended <u>September 30,</u> |
|-----------------------------------|-----------------------|-----------------------------------|-------------------------|------------------------------------|
| | <u>Operations</u> | <u>General Administration</u> | <u>2005</u> | <u>2004</u> |
| Purchased Transportation Services | \$ 925,134 | \$ - | \$ 925,134 | \$ 1,037,345 |
| Miscellaneous Expense | | | | |
| Administration | - | 44,965 | 44,965 | 43,257 |
| Travel | - | 858 | 858 | 1,285 |
| Training | - | 935 | 935 | 1,274 |
| Lot repairs and maintenance | - | 8,000 | 8,000 | - |
| Building repairs and maintenance | - | 4,400 | 4,400 | - |
| Insurance | - | 95,831 | 95,831 | 74,242 |
| Other | 2,423 | 8,505 | 10,928 | 49,314 |
| Depreciation | <u>7,053</u> | <u>611</u> | <u>7,664</u> | <u>7,761</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 934,610</u> | <u>\$ 164,105</u> | <u>\$ 1,098,715</u> | <u>\$ 1,214,478</u> |

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MDOT - SMALL BUS PROGRAM
Net Eligible Costs Computations of General Operations**

| | <u>Federal Section 5311</u> | | <u>Local Operating Assistance</u> | |
|--|-----------------------------|---------------------|-----------------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Operating Expenses | | | | |
| Purchased transportation services | \$ 925,134 | \$ 1,037,345 | \$ 925,134 | \$ 1,037,345 |
| Miscellaneous Expense: | | | | |
| Administration | 44,965 | 43,257 | 44,965 | 43,257 |
| Travel | 858 | 1,285 | 858 | 1,285 |
| Training | 935 | 1,274 | 935 | 1,274 |
| Lot repairs and maintenance | 8,000 | - | 8,000 | - |
| Building repairs and maintenance | 4,400 | - | 4,400 | - |
| Insurance | 95,831 | 74,242 | 95,831 | 74,242 |
| Other | 10,928 | 49,314 | 10,928 | 49,314 |
| Depreciation | 7,664 | 7,761 | 7,664 | 7,761 |
| Total Operating Expenses | <u>\$ 1,098,715</u> | <u>\$ 1,214,478</u> | <u>\$ 1,098,715</u> | <u>\$ 1,214,478</u> |
| Less: Ineligible Expenses | | | | |
| Depreciation - current fiscal year (except depreciation on locally funded assets of \$502) | \$ 7,162 | \$ 7,259 | \$ 7,162 | \$ 7,259 |
| Audit expense | 4,900 | 4,600 | - | - |
| RTAP reimbursement | 726 | - | 726 | - |
| Seminars and other reimbursement | 4,348 | 36,533 | 4,348 | 36,533 |
| Portion of association dues | 91 | 156 | 91 | 156 |
| Total Ineligible Expenses | <u>\$ 17,227</u> | <u>\$ 48,548</u> | <u>\$ 12,327</u> | <u>\$ 43,948</u> |
| Net Eligible Expenses | <u>\$ 1,081,488</u> | <u>\$ 1,165,930</u> | <u>\$ 1,086,388</u> | <u>\$ 1,170,530</u> |
| State Statutory Operating Assistance: | | | | |
| 38.437574823% of eligible operating expenses (42.236619648% for 2004) | | | <u>\$ 417,581</u> | <u>\$ 494,392</u> |
| Federal Section 5311: | | | | |
| 12.40% of eligible operating expenses (10.95% for 2004) | <u>\$ 134,105</u> | <u>\$ 127,669</u> | | |

**BERRIEN COUNTY PUBLIC TRANSPORTATION
MODT- SMALL BUS PROGRAM
Schedule of Mileage Data (Unaudited)**

| Demand Response | Public Transportation Mileage | |
|-----------------------------------|--------------------------------------|--------------------|
| | Year Ended | |
| | <u>September 30,</u> | |
| | <u>2005</u> | <u>2004</u> |
| First quarter ended December 31 | 143,252 | 158,228 |
| Second quarter ended March 31 | 137,380 | 160,235 |
| Third quarter ended June 30 | 138,897 | 162,633 |
| Fourth quarter ended September 30 | <u>129,543</u> | <u>156,485</u> |
| | <u>549,072</u> | <u>637,581</u> |

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

December 5, 2005

Board of Commissioners of Berrien County
Berrien County Public Transportation
MDOT - Small Bus Program
St. Joseph, Michigan 49085

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Dear Board Members:

We have audited the financial statements of Berrien County Public Transportation, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Berrien County Public Transportation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**. However, we noted certain immaterial instances of noncompliance that we have reported to management of Berrien County Public Transportation, in a separate letter dated December 5, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berrien County Public Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com 13

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - Continued**

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Berrien County Public Transportation, in a separate letter dated December 5, 2005.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Seibel & Company, P.C.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

December 5, 2005

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DEC 27 2005

LOCAL AUDIT & FINANCE DIV.

Members of the Berrien County Board of Commissioners
Berrien County Public Transportation
MDOT - Small Bus Program
Berrien County, Michigan

In connection with our examination of the books and records of Berrien County Public Transportation for the year ended September 30, 2005, we offer the following comments and recommendations.

GENERAL

1. Bank reconciliations for the Fifth Third account completed by McMurray, Marks & Edmunds need to be reviewed and verified by county personnel on a monthly basis. This procedure has not been done since June 30, 2005 due to personnel changes.

We appreciate the courtesy and cooperation extended to us by Berrien County Public Transportation and trust that these comments and suggestions will be received in the spirit of cooperation in which they are offered.

If we can be of any assistance in implementing any of these suggestions, or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,

Gerbel & Company, P.C.

GERBEL & COMPANY, P.C.
Certified Public Accountants

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

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